

EXECUTIVE SUMMARY

Significant improvements in the youth labour market prior to the crisis...

In the decade that preceded the 2008-09 global economic recession, youth labour market conditions improved significantly: the OECD average youth unemployment rate declined from 16% in the mid-1990s to 14% in the mid-2000s. This drop masks, however, significant differences across countries. Australia, Canada, Denmark, the Netherlands, New Zealand and Norway were the best performing countries among the 16 OECD countries that participated in the *Jobs for Youth* thematic review. These countries shared particularly dynamic youth labour markets with above-average employment rates and a very low incidence of long-term unemployment.

...but persisting problems of labour market integration for some disadvantaged youth

But even during the period of falling youth unemployment prior to the recent recession, not everything was rosy in the youth labour market. In most countries, only a fraction of youth settled quickly into career employment after leaving education. Many young people experienced a longer and bumpier transition from school to work. This report identifies two groups that face particular difficulties in getting a stable job after leaving school. The first group of so-called “left behind youth”, which exists in the OECD countries, cumulates several disadvantages: they tend to lack a diploma, come from an immigrant/minority background and/or live in disadvantaged/rural/remote areas. The size of this group can be proxied by the number of young people aged 15/16-29 who are neither in employment, nor in education or training (NEET), and who lack an upper secondary education. In 2005, on average in the OECD, the group “left behind” represented 11% of the youth aged 15-29 having left education.

The second group, the so-called “poorly-integrated new entrants”, face significant barriers to find stable employment. While these young people often have qualifications, they frequently go back and forth between temporary jobs, unemployment and/or inactivity, even during periods of strong economic growth. For example, in Europe in 2005-07, on average 8% of the youth aged 15-29 who had left education and found a temporary job were not in a stable job two years afterwards. Thus in total, even before the crisis hit, at least one in five young people – and many more in some countries – were at risk of experiencing poor employment prospects.

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The global crisis has hit youth hard...

The global economic crisis hit youth very hard. In the two years to the second quarter of 2010, unemployment among young people aged 15-24 increased by almost 6 percentage points, more than twice as much as for adults (2.5 percentage points). Only Germany managed to slightly reduce its already relatively low youth employment rate while the highest increase was recorded in Spain, followed by Ireland, the Slovak Republic, Greece and Iceland.

As a result, youth unemployment rates currently exceed 25% in seven countries (Finland, Greece, Ireland, Italy, the Slovak Republic, Spain and Sweden). The highest rate is in Spain, where more than 40% of youth, active in the labour market, are unemployed. By contrast, the youth unemployment rate is still at 10% or less in eight countries (Austria, Germany, Japan, Korea, Mexico, the Netherlands, Norway and Switzerland).*

By mid-2010, youth unemployment rates had reached record-high levels for the 25 last years. The average for OECD countries stood at 19% and in the European Union at 22%, which was a record for seven countries (Japan, United States, Portugal, Iceland, Hungary, Ireland and Sweden). However, nine countries (Netherlands, Korea, Germany, Australia, Turkey, France, Poland, Italy and the Slovak Republic) had experienced a higher youth unemployment rate than the current one between 1985 and 2009.

...and the short-term outlook for many young people, including those with relatively high skills, is rather gloomy

Youth unemployment rates are forecast to remain high and reach 20% on average in the OECD area in 2011. The ongoing recovery is in fact too weak to provide sufficient job opportunities to the many youth jobseekers. A significant and growing proportion of youth, even those who would have performed well in good times, is at risk of prolonged unemployment, with potentially negative long-term consequences for their careers, or so-called “scarring effects”.

Countries have intervened during the crisis by significantly scaling up public funds for youth labour market programmes...

Differences in the evolution of youth unemployment during the global crisis and the early phases of the recovery depend largely on the depth of the output decline in different countries, but also on the underlying policy and institutional settings and the short-term policy responses to help youth weather the storm. Despite these significant differences across OECD countries, some initial and general lessons can be identified.

*. However, in Mexico and other lower-income OECD countries, youth joblessness is better captured by the proportion of youth who are neither in employment, nor in education or training (NEET) which stood at 22% in 2009 in Mexico, double the OECD average of 11%.

A move towards early and selective intervention in many countries helps to avoid the build-up of a large pool of youth at risk of becoming long-term unemployed or inactive

In November 2009 Denmark introduced a quick, intensive and focused activation policy for different groups of youth. In the Slovak Republic, school-leavers wanting to become self-employed are paid a self-employment grant as soon as they register with the public employment service (PES) rather than having to look for work for a period before they become eligible for support.

However, there is a need to design outreach programmes focusing on the NEET group, who tend to have little or no contact with the PES. The closer co-operation introduced in England in 2009 between Connexions Services, in charge of guidance and support services for all young people aged 13-19 and Jobcentre Plus, the PES in charge of jobseekers from the age of 18, prevents some teenagers at risk from losing contact with the labour market. In Belgium, access to appropriate job-search assistance provided for those who are job-ready in the first weeks of unemployment was intensified in Flanders, while the focus of the Job Tonic programme in Wallonia was recently extended to activate more young unemployed. In 2010, the Korean Government introduced a capacity-building programme for young people, which aims to restore the confidence of psychologically vulnerable youths, and launched a six-month follow-up period to ensure sustainable employment and employment services for participants.

A shift from a so-called “work-first” approach to a “learn/train-first” approach helps to boost the employability of those who have shown major difficulties in finding a job

Such a shift is emphasized in the Australian Compact which aims to promote young people’s participation in education and training and to provide protection from the anticipated tighter labour market in the crisis. The Compact, introduced in April 2009 between all states and territories and young Australians, is especially appropriate during an economic downturn when the opportunity cost of time spent on a training programme or in education is lower. While it is important to include an on-the-job component to learning and training programmes, public-sector jobs may also help disadvantaged youth acquire skills that could be transferable to private-sector jobs provided they are temporary and well-designed.

There is a need to secure the safety net and the employment and training pathways of unemployed youth and young workers

Half of OECD countries have temporarily expanded the coverage of unemployment benefits since the beginning of the crisis; which will be of particular benefit to the young unemployed. However, any extension of unemployment benefits coverage should be made conditional on active job-search on the part of the unemployed youth. Laid-off apprentices are helped in many countries to complete their training and obtain a qualification. France focuses, for example, on low-skilled apprentices to help them to find a place in a firm.

There is a need to couple eligibility with social assistance for youth at high risk of marginalisation with a rigorous “mutual obligations” approach

To reconnect youth who risk becoming marginalised, there should be an effective mix of “carrots” (income support and effective active labour market programmes – ALMPs) and

“sticks” (a requirement to search actively for work and/or take steps to improve employability, enforced by the threat of moderate benefit sanctions). The Netherlands offers a good example of this: local authorities are *obliged* to give a young person aged 18-27 who applies for social assistance benefits, an offer consisting of work, training or a combination of both, but the young person cannot remain inactive if he/she wants to receive income support.

...but the build-up of long-term youth unemployment in some countries is worrying

Many OECD countries have reinforced their special youth measures in response to the crisis. Nonetheless, the growing incidence of unemployment lasting more than six months among youth in many OECD countries in 2009 compared with 2008 is a worrying sign. This increase exceeded 5 percentage points in seven OECD countries (Italy, New Zealand, United Kingdom, United States, Iceland, Ireland and Spain).

As the recovery gains momentum, youth policies should focus on adapting to support a job-rich recovery

Governments face difficult choices going forward to ensure a job-rich recovery in the context of a fragile recovery and mounting fiscal pressures. The current shift to fiscal consolidation in a growing number of OECD countries is challenging and calls for even better-designed and targeted labour market, education and training policies.

As the recovery strengthens, it is important to scale down public short-time work schemes. These schemes have played an important role in preserving jobs during the crisis in a number of countries, but in most cases, their impact was largely confined to workers with *permanent* contracts, further increasing labour market segmentation between workers in regular jobs and workers in *temporary* and *part-time* jobs, many of whom are young. During the recovery, such schemes could become an obstacle to the required reallocation of labour, particularly if they support some jobs that would not have been maintained in the absence of the subsidy, and hinder new hires, especially of youth.

One of the crucial messages of this report is to urge governments to continue to focus on effective measures for youth in the early phase of the recovery. Facilitating the school-to-work transition and improving labour market prospects for all youth should remain at the top of the political agenda in all OECD countries. However, particular attention should be devoted to youth facing difficulties in getting a stable job after leaving school. If this is not the case, there is a high risk of durably increasing the hard-core group of youth left behind who would be likely to suffer long-term “scarring” in terms of their future employment and earnings prospects.

Going forward, a number of structural problems should be tackled

The recent recession has highlighted once again underlying structural problems in the youth labour market, which tend to be masked in good times. In many countries, actions are needed in several different areas, including education, training, employment and social policies to ensure that young people will be ready and equipped to work as the recovery gains momentum. The OECD *Jobs for Youth* review has identified several key objectives on the structural policy front.

Ensuring that youth leave education with recognised qualifications

The crisis has highlighted that one of the main underlying structural problems in the youth labour market is related to education and training. Some youth are leaving the education system and entering the labour market without a recognised and valued qualification and, as a result, they lack the necessary skills to prosper in the labour market.

Measures to encourage young people to stay on at school longer have proven effective in ensuring they leave the education system with at least some good basic skills, provided that they are given educational choices, and in particular, apprenticeship. Extending the schooling period could be achieved in different ways. Some countries have increased the school-leaving age (in general 16). This is the case, for example, in the Netherlands, where since 2007 a law has required 18-year-olds who have not acquired a two-year diploma from the second cycle of secondary vocational education to follow a work-study programme. In England, the 2008 Education and Skills Bill requires a flexible participation in education and training on the part of young people until they are 18 or until an upper secondary qualification is obtained, whichever is earlier. The changes will come into force gradually: in 2013 young people will be required to participate until they turn 17, and in 2015 until they turn 18. A number of countries have taken innovative and promising measures to prevent teenagers from dropping out of school and to help tertiary students and graduates be better prepared to enter the labour market. For example, Canada allocates resources in its 2010-11 Budget to help aboriginal youth acquire a better primary and secondary education in order to prepare them for post-secondary education. In Japan, the number of Job Supporters for high-school or university/college graduates in the PES has been doubled in 2009. Job supporters visit schools and companies to support employment for students who will soon become graduates and who have not yet received a formal job offer.

A low school drop-out rate alone is not enough to guarantee low unemployment for youth. The cases of Poland and the Slovak Republic are interesting in this respect. In both countries, the incidence of school drop-outs among the 20-24-years-olds is among the lowest in OECD countries but more than one youth in four is unemployed. Rather than resulting from a high drop-out rate, the high youth unemployment rate in both countries partly reflects a skills mismatch problem between the curricula taught in vocational secondary schools leading to outdated qualifications and the requirements of the labour market. In Poland, the amendment of the Act on Employment Promotion and Labour Market Institutions in force since February 2009 strengthened financial incentives for unemployed young people to participate in training. In the Slovak Republic, measures adopted for regional schools are designed to improve the knowledge and skills of pupils and bring vocational education and training closer to labour market requirements.

Facilitating the transition from school to work

The OECD *Jobs for Youth* review highlights successes in the multiple pathways between school and work that exist in OECD countries. The school-to-work transition is easier in countries where *combining study and work* is frequent e.g. Austria, Germany and Switzerland, the so-called “apprenticeship countries”, and Australia, Canada, the Nordic countries, the Netherlands, New Zealand, the United Kingdom and the United States where many youth combine school with part-time work. However, combining study and work should be promoted to the extent that work is not harmful to studies (*i.e.* no more than 15-20 hours of work a week during the school year).

It is also key that the experience acquired in first jobs, even non-standard ones and those performed while studying, serves eventually as a stepping stone towards a career. For example in Korea, vocational high schools (colleges) can sign an agreement with SMEs, under which education and training tailored to the SMEs' needs is provided to students on the condition that they will be employed by the SMEs after graduation.

The review stresses, in particular, that apprenticeship and other dual vocational education programmes appear to be efficient school-to-work pathways, particularly for secondary students. They can yield multiple dividends: securing the transition towards employment for the apprentice (stepping-stone effect) and lowering labour costs for the employer (cost effect), tied together by a training commitment from the employer, which yields a valued qualification on the labour market (skill effect). There is also an income effect for the apprentice who receives a low wage that will increase with his/her age and progress in training.

Drawing on the 16 country case studies, the report presents innovative and promising measures to promote successful apprenticeship opportunities for youth, particularly among the most disadvantaged groups. The key ingredient in all successful recipes is fine-tuning measures to secure on-the-job training for *all* apprentices, even low achievers. There is a focus on helping youth, not only to perform well during their “second” transition (*i.e.* “from vocational training to the labour market”), but also during the “first” transition (*i.e.* from school to vocational training).

Assisting unemployed youth in their job search with appropriate measures

Another key is that well-designed and co-ordinated actions are undertaken on multiple fronts, involving the education and training system, the labour market and the welfare system. The activation stance should include outreach programmes, early intervention, profiling, targeting and “mutual obligations”.

In terms of the mix of active labour market programmes, *job-search assistance programmes* are often found to be the most cost-effective for young people who are assessed as ready to work, providing positive returns to both earnings and employment. Programmes that integrate and combine services and offer a *comprehensive “package”* seem to be particularly successful. For example, job-search assistance programmes should include not only workshops that focus on how to write a resumé and contact potential employers but also allow for mobility and housing. Providing jobseekers with an assessment of competencies, including those acquired through non-formal and informal learning, and where relevant, validating competencies through recognised qualifications may facilitate both job-search and access to further education and training.

The report highlights that standard active labour market policies are unlikely to work for the most disadvantaged youths, who usually cumulate serial social risk factors (low education, ethnic minority background, living in a deprived neighbourhood, drug use, mental illness, etc.). For this group, more in-depth strategies are needed. In particular, governments should make sure that skill-upgrading services are tailored to the current profiles of disadvantaged jobless youth.

It is vital to avoid the simple back-to-the-classroom option as this might prove very counterproductive with disconnected youth. In this context, priority should be given to training programmes taught outside traditional schools combined with regular exposure to work experience and adult mentors. These opportunities could be offered in either a boarding-school-type environment or a local-partnership type environment, such as second-

chance schools in Europe. Residential programmes such as the long-standing *US Job Corps* programme are expensive, but have shown to yield positive social benefits, especially for older young people (aged 20-24).

Addressing labour demand barriers for youth

Other structural barriers to youth employment are related to labour demand. In many countries, actions are needed in several different areas. Recent policy measures and innovative practices implemented in OECD countries are highlighted in three areas:

- i) *Investing in funds that promote new skills for new jobs, targeting young entrants.* In Spain, for example, the State Fund for Local Investment aims in 2010 to encourage large and medium-sized localities to invest in environmentally- and technologically- sustainable projects and care services for dependants and disabled persons. Projects funded must contribute to improving long-term productivity in the economy.
- ii) *Reducing the cost of employing low-skilled youth,* through sub-minimum wages for youth and/or lower social security contributions for low wages. Eight OECD countries have a sub-minimum wage for youth. The arguments for and against the introduction of a sub-minimum wage for youth need to be weighed carefully. Such a sub-minimum wage may generalise the incidence of low-pay jobs among youth in segmented labour markets where they find it difficult to move on to better-paid jobs. On balance, a sub-minimum wage for youth younger than 18 may ease access to the labour market and reduce the likelihood of unemployment and a NEET status for this age group. A sub-minimum wage rate may also discourage early school-leaving. At the same time, because the vast majority of teenagers live with their parents, it is unlikely that a lower minimum wage would bring about a significant worsening of their living conditions.

Many countries combine different tools to reduce the cost of hiring low-skilled youth. For example, in France, “zero charges” measure concerns apprenticeship contracts: between April 2009 and December 2010, firms hiring apprentices received compensation for one year's social charges. A subsidy of EUR 1 000 (EUR 2 000 for youth without upper secondary education) was given to employers hiring youth on a *contrat de professionnalisation*. Training allowances in some active measures for disadvantaged youth are also lower than the minimum wage and/or associated with social security reductions.

- iii) *Pursuing efforts to reduce labour-market duality overall and, in particular, the gap between regulations for temporary and permanent contracts.* In those countries with large differences in the stringency of regulations for temporary (or other atypical job) contracts compared with permanent ones (e.g. Spain and France), many youth tend to be trapped in precarious jobs that do not offer clear career prospects for a long period. While reducing the differences in the provisions associated with different types of contract would have positive effects for many low-skilled workers and those with intermittent employment spells, youth are likely to be among the main beneficiaries of such a reform.

There should be a rebalancing of employment protection to promote the mobility of young people (as well as other workers with limited work experience), from entry jobs, which are very often atypical, to career employment. In 2008, Japan introduced grants for trial employment for a certain period (in principle three months). Trial employment should enable employers to judge the vocational

aptitudes and abilities of the youth who find it hard to get a job because they lack work experience and know-how, and encourage transition to regular employment.

Summing up, the OECD *Jobs for Youth* review suggests that the youth unemployment rate is likely to remain relatively high in the majority of OECD countries over the short term. While most OECD countries have acted swiftly during the crisis by scaling up resources for youth programmes, there is a strong need to maintain the momentum, even in the early phases of the recovery, and provide adequate resources for cost-effective youth measures. While specific youth measures vary from one country to another depending on the youth labour market conditions and available policy tools, the most promising measures are those that strengthen job opportunities for youth. Actions are needed to prevent most school-leavers from being trapped in long spells of unemployment. But the target group for intensive assistance should be the hard-core group of youth who cumulate disadvantages and are at high risk of long-term unemployment and inactivity. It is therefore crucial that governments tackle the structural barriers this hard-core group faces in education and in the labour market.



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